REPORT OF THE

ASSOCIATION FINANCIAL EXAMINATION OF

SUNSET LIFE INSURANCE COMPANY OF AMERICA

AS OF

DECEMBER 31, 2002



STATE OF MISSOURI

DEPARTMENT OF INSURANCE

JEFFERSON CITY, MISSOURI

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Kansas City, Missouri August 2, 2004

Honorable Alfred W. Gross, Commissioner Virginia Bureau of Insurance Chairman of Financial Condition (EX4) Subcommittee Southeastern Zone Secretary

Honorable Jorge Gomez, Commissioner Wisconsin Department of Insurance Midwestern Zone Secretary

Honorable Scott B. Lakin, Director Missouri Department of Insurance 301 West High Street, Room 530 Jefferson City, Missouri 65102-0690

Ladies and Gentlemen:

In accordance with your financial examination warrant, a full scope financial examination has been made of the records, affairs and financial condition of

Sunset Life Insurance Company of America

hereinafter referred to as such, as Sunset Life, or as the Company. Its administrative office is located at 3520 Broadway, Kansas City, Missouri 64111, telephone number 816-753-7299. This examination began on October 1, 2003, and concluded on the above date.

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SCOPE OF EXAMINATION

Period Covered

The prior full scope association financial examination of Sunset Life Insurance Company of America was made as of December 31, 1999, and was conducted by examiners from the State of Missouri representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC) with no other zones participating.

The current full scope association financial examination covered the period from January 1, 2000, through December 31, 2002, and was conducted by examiners from the State of Missouri, representing the Midwestern Zone of the NAIC, with no other zone participating.

This examination was conducted concurrently with the examinations of the parent company, Kansas City Life Insurance Company (Kansas City Life) and a subsidiary, Old American Insurance Company (Old American).

This examination also included the material transactions and/or events occurring subsequent to the examination date, which are noted in this report.

Procedures

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the NAIC, except where practices, procedures and applicable regulations of the Missouri Department of Insurance (MDI) and statutes of the State of Missouri prevailed.

The examiners reviewed the work of the Company's independent auditor, KPMG LLP, of Kansas City, Missouri, for its audit covering the period from January 1, 2002, through December

31, 2002. Due to differences in approach and timing of the work of the independent auditors, only minimal use was made of the work of the independent auditors.

Comments - Previous Examination

Listed below are comments, recommendations and notes of the previous examination report dated as of December 31, 1999, and the subsequent response or action taken by the Company.

Schedule S

Comment: It was noted that the Company incorrectly completed Schedule S of the Annual Statement. The Company was directed to show a separate entry for each reinsurance agreement. Sunset Life's Schedule S incorrectly combined several reinsurance agreements into one entry.

Company's Response: The Company did not provide a formal response to this comment.

Current Findings: The Company has complied with the recommendation as represented in the current Annual Statement Schedule S.

LIHTC Partnerships

Comment: It was noted that the statement values reported by Sunset Life for its LIHTC partnership investments were <u>not</u> based upon the GAAP equity method prescribed by the Accounting Practices and Procedures Manual of the NAIC. It was also noted that the Company had adopted an alternative reporting method. The Company was ordered to submit a written request to the MDI for specific approval if it wishes to admit statement values calculated from an alternative methodology.

Company's Response: The Company did not formally respond to this comment.

Current Findings: The Company has corrected the reporting problems indicated in a majority of the individual investments. However, continuing reporting problems were noted during this examination on a few immaterial cases. These have been included in a separate communication to the Company.

Suspense Accounts

Comment: The Company could not provide reconciliations, as of December 31, 1999, for most of the 27 suspense accounts included in the Remittances and Items Not Allocated line. The Company should ensure that all suspense accounts are reconciled on at least on a quarterly basis.

Company's Response: The Company did not formally respond to this comment.

Current Findings: Additional problems were noted regarding this account during this examination. See the Accounts and Records section of this report under "Remittances and Items Not Allocated" for more details.

HISTORY

General

Sunset Life Insurance Company of America was incorporated as a stock life insurance company under the laws of the State of Washington on May 12, 1937. The Company was a wholly owned subsidiary of American Underwriters Corporation (AUC), until AUC was voluntarily dissolved in October 1960. Upon dissolution, Sunset Life's shares of stock were distributed to the owners of AUC.

In early 1974, Kansas City Life made a tender offer for all of the outstanding common stock of Sunset Life. As of December 31, 1975, 96.8% of the stock had been purchased. A capital restructuring was completed in December 1990, which resulted in Kansas City Life owning 100% of the outstanding common stock.

Capital Stock

The Company is authorized to issue 325 shares of \$20,000 par value common stock. As of December 31, 2002, 266 shares were issued and outstanding, resulting in a total par value of \$5,320,000 in the Company's common capital stock account.

Dividends

The Company paid the following dividends during the examination period: 2002 - \$0, 2001 - \$6,300,000 and 2000 - \$0. Subsequent to the examination date, the Company paid an extra-ordinary dividend of \$55,000,000. This action was approved by the Missouri Department of Insurance in accordance with the applicable regulation.

Management

The Board of Directors elected and serving as of December 31, 2002, were as follows:

<u>Name</u>	Address	Occupation and Business Affiliation
Joseph R. Bixby	Kansas City, Missouri	Chairman of the Board, Kansas City Life
R. Philip Bixby	Kansas City, Missouri	President, CEO & Vice Chairman of the
		Board, Kansas City Life
Walter E. Bixby	Kansas City, Missouri	President, Old American
Charles R. Duffy, Jr.	Leawood, Kansas	Senior Vice President, Kansas City Life
Bruce W. Gordon	Leawood, Kansas	Senior Vice President, Kansas City Life
H. Dann Harris#	Gladstone, Missouri	Senior Vice President, Sunset Life
Nancy Bixby Hudson	Lander, Wyoming	Director, Kansas City Life
Daryl D. Jensen	Olympia, Washington	Vice President of Administration, Western
		Institutional Review Board
James F. Aldrich	Kansas City, Missouri	Secretary
Tracy W. Knapp	Overland Park, Kansas	Senior Vice President, Kansas City Life
Mark A. Milton	Leawood, Kansas	Senior Vice President and Actuary,
		Kansas City Life

#Resigned effective June 28, 2003, with no replacement nominated and elected.

The Company's Bylaws authorize an Executive Committee and any other committees that may be needed. The established committees and the members elected and serving as of December 31, 2002, were as follows:

Executive Committee	Committee on Employee Benefits
R. Philip Bixby	R. Philip Bixby
Walter E. Bixby	Daryl D. Jensen
Daryl D. Jensen	James F. Aldrich
James F. Aldrich	

Officers Compensation Committee Nomintating Committee

Joseph R. BixbyJoseph R. BixbyR. Philip BixbyDaryl D. JensenDaryl D. JensenR. Philip Bixby

The senior officers elected and serving as of December 31, 2002, were as follows:

Joseph R. Bixby Chairman of the Board

R. Philip Bixby President

Daryl D. Jensen Vice Chairman of the Board Bruce W. Gordon Executive Vice President

H. Dann Harris# Sr. Vice President Marketing and Sales

David A. Laird Vice President and Controller

Robert J. Milroy Vice President - Policy Administration

Mark A. Milton Vice President and Actuary

Paul W. Hensley Vice President Marketing Administration

William W. Sears Vice President Insurance Services

Anne C. Moberg* Treasurer James F. Aldrich Secretary

Conflict of Interest

The Company requires its directors and officers to annually complete a conflict of interest questionnaire. Completed questionnaires were reviewed for all directors and officers for the examination period. No material conflicts were noted.

Corporate Records

The Company's Articles of Incorporation and Bylaws were reviewed for the period under examination. Neither the Articles of Incorporation nor the Bylaws were amended during the examination period.

This examination noted that although the Board of Directors of Sunset Life elects an Executive Committee, this Committee does not meet as Kansas City Life's Executive Committee functions in place of Sunset Life's. In accordance with the Bylaws, each member of the

[#]Resigned effective June 28, 2003

^{*}Replaced in January 2003 by Mary C. McCalla

Executive Committee must be a member of the Board of Sunset Life, however, we noted several members of Kansas City Life's Executive Committee are not on Sunset Life's Board, in violation of the Bylaws. The Company should either amend its Bylaws, stating that Kansas City Life's Executive Committee will act on its behalf or comply with the provisions of the Bylaws with respect to the composition of the Executive Committee and its actions.

With respect to the powers of the Board of Directors of the Company, the Bylaws identified the state of Washington as the controlling legal authority, however, with respect to Committees, specifically, the Executive Committee, the state of Missouri was indicated as the controlling legal authority. The Company should amend its Bylaws to identify the state of Missouri as its controlling legal authority.

The minutes of the Board of Directors' meetings, committee meetings, and stockholders' meetings were reviewed for proper approval of corporate transactions. In general, the minutes appear to properly reflect and approve the Company's major transactions and events for the period under examination.

Acquisitions, Mergers and Major Corporate Events

None

Surplus Debentures

No surplus debentures were issued or outstanding for the period under examination.

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AFFILIATED COMPANIES

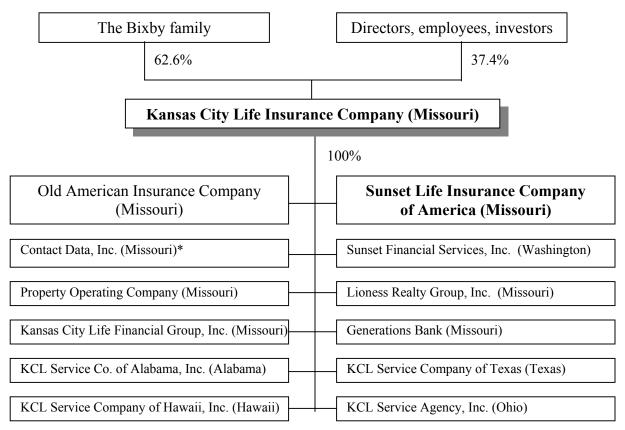
Holding Company, Subsidiaries and Affiliates

The Company is a member of an Insurance Holding Company System as defined by Section 382.010, RSMo (Definitions). An Insurance Holding Company System Registration Statement was filed by the parent, Kansas City Life, for each year of the examination period on behalf of itself and its subsidiaries, including Sunset Life. Sunset Life is a wholly owned subsidiary of Kansas City Life. The Bixby family, consisting of several individuals, is the ultimate controlling entity of Kansas City Life.

The parent, Kansas City Life, is a life and health insurer organized as a Missouri The holding company system includes another life and health insurer, Old corporation. American, and ten other affiliates that are related in part or entirely to the insurance operations. Contact Data, Inc., a Missouri corporation, works primarily for Old American by producing direct mailings and magazine inserts to generate new business leads. Sunset Financial Services, Inc. (SFS), a Missouri corporation, markets all of Kansas City Life and Sunset Life variable products and performs investment services for policyholders. Generations Bank, a federal stock savings bank chartered in Missouri, administers personal growth accounts (PGA) for Kansas City Life and its insurance subsidiaries' policyholders. Proceeds from claims and surrenders are deposited into a checking account with Generations Bank instead of paying the proceeds directly The policyholder then becomes a customer of Generations Bank. to the policyholder. Generations Bank also provides typical banking services to customers unrelated to the insurance operations. Lioness Realty Group, Inc. (Lioness) formerly managed the real estate owned by Kansas City Life and other non-affiliated companies, but is now inactive. The other six subsidiaries are currently inactive or do not have any significant operations.

Organizational Chart

The following organizational chart depicts Sunset Life's ownership and holding company structure, as of December 31, 2002:



^{*}Terminated its corporate charter with the state of Missouri effective December 19, 2003.

Intercompany Transactions

The Company's significant intercompany agreements are outlined below.

1. Type: Tax Allocation Agreement

Affiliates: Kansas City Life and Old American

Effective: January 1, 1988

Terms: A consolidated federal income tax return is filed each year by Kansas City Life.

The portion of the consolidated tax liability that is allocated to Old American and Sunset Life is based upon the subsidiary's liability on a stand-alone basis. Intercompany tax settlements are made approximately 30 days after the filing of

the tax return.

2. Type: Cost Sharing Agreement

Affiliate: Kansas City Life **Effective:** August 7, 1992

Terms: Kansas City Life employees perform necessary services for Sunset Life. These

services include data processing, personnel, investment, and tax, management, and other administrative services. Salaries and benefits are allocated based upon a time study for the applicable employees. Any expenses that are specifically for Sunset Life are not subject to allocation and are charged 100% to Sunset Life.

Allocated costs are to be reimbursed at least on a quarterly basis.

3. Type: Loan Guarantee

Affiliate: Kansas City Life Insurance Company

Effective: August 4, 1999

Terms: Kansas City Life has guaranteed the indebtedness of Sunset Life on borrowings

under the UMB Bank \$10,000,000 Line of Credit.

The Company had a reinsurance agreement with Kansas City Life effective September 1, 1993, for all of the life business up to \$2,450,000 of face value per policy on policies issued since 1976. Beginning in 1994, Kansas City Life no longer reinsured any of the Company's term life products.

Kansas City Life has also issued guarantees for minimum amounts of capital and surplus for Sunset Life. These guarantees were necessary for Sunset Life's licensure in the three states. A written guarantee was executed June 18, 1998 for the State of Ohio. Guarantees for Connecticut and Iowa were made in the form of Board of Directors' resolutions that were documented in the April 26, 1999, minutes of Kansas City Life.

The amounts (paid) to and received from parent during the period under examination under the above agreements were as follows:

	<u>2000</u>	<u>2001</u>	<u>2002</u>
Cost Sharing Agreement – Sunset Life:			
Paid to Kansas City Life	(\$6,552,000)	(\$6,643,000)	(\$6,464,000)
Dividend Payments:			
Paid to Kansas City Life	0	(6,300,000)	0
Federal Income Tax Allocation Agreement:			
(Paid to)/Received from - Kansas City Life	(1,565,999)	<u>(991,936)</u>	3,074,198
Net Amount (Paid) or Received	<u>(\$8,117,999)</u>	(\$13,934,936)	<u>(\$3,389,802)</u>

Kansas City Life has an account with State Street Bank for payment of claims for itself and its insurance subsidiaries, including Sunset Life, for the personal growth account business. The effect of this intercompany transaction was not properly reported in the Annual Statements of both companies. See notes 1 and 2 on the Notes to the Financial Statements section of this report for additional details.

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured along with Kansas City Life and other affiliates on a financial institution bond with a liability limit of \$5,000,000 and a \$100,000 deductible. This coverage complies with the suggested minimum amount of fidelity insurance according to NAIC guidelines. Sunset Life is also a named insured on additional insurance policies that include, but are not limited to, the following: commercial general liability, commercial property, workers compensation, commercial umbrella, directors and officers liability, and business automobile.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

Sunset Life does not have any employees. All Company functions are performed by employees of the parent company, Kansas City Life. Sunset Life's percentage of employee benefit costs are allocated under an MDI approved Cost Sharing Agreement.

A variety of standard benefits are provided to Kansas City Life's employees. These benefits include, but are not limited to, health insurance, dental insurance, life insurance, disability insurance, a defined benefit pension plan, a 401(k) savings plan, a deferred compensation plan, and profit sharing plan. Post-retirement health insurance is provided to retirees that meet eligibility requirements.

Agents located throughout the United States may qualify for limited benefits upon meeting production requirements. These benefits include group life and accidental death and dismemberment coverage, and a nonqualified deferred compensation plan.

Settlement of Company expenses related to the benefits provided by Kansas City Life under the Cost Sharing Agreement is made monthly, and no additional legal liability existed as of the end of the examination period.

The Company has properly accounted for its liability related to the agent's nonqualified deferred compensation plan.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the Missouri Department of Insurance as of December 31, 2002, as reflected below, were sufficient to meet the capital deposit requirements for the State of Missouri in accordance with Section 376.290 RSMo (Trust Deposits). The Company's required

deposit for Missouri was \$600,000. The funds on deposit as of December 31, 2002, were as follows:

Type of Security	Par Value	Fair Value	Statement Value
U.S. Treasury Notes	\$5,000,000	\$5,550,000	\$4,956,095

Deposits with Other States

The Company also has funds on deposit with other states in which it is licensed. Those funds on deposit as of December 31, 2002, were as follows:

			Fair	Statement
<u>State</u>	Type of Security	Par Value	<u>Value</u>	<u>Value</u>
Georgia	U.S. Treasury Notes	\$35,000	\$39,145	\$34,849
Massachusetts	U.S. Treasury Notes	500,000	564,219	509,971
New Mexico	U.S. Treasury Notes	150,000	167,484	154,210
North Carolina	U.S. Treasury Notes	100,000	112,125	102,398
Virginia	U.S. Treasury Notes	235,000	<u>274,289</u>	238,664
Total		\$1,020,000	\$1,157,262	\$1,040,092

Other Deposits

The Company also had pledged assets to the Federal Home Loan Bank as collateral for future borrowings from the Federal Home Loan Bank. The Company did not have any borrowings from the Federal Home Loan Bank at the end of 2002. The pledged assets on deposit as of December 31, 2002 were as follows:

Type of Securities	Par Value	<u>Fair Value</u>	Statement Value
Bonds	\$ 7,694,323	\$ 8,130,351	\$ 7,645,470

The assets pledged as collateral to the Federal Home Loan Bank were not disclosed on Schedule E - Part 2 (Special Deposits) in the 2002 Annual Statement. The NAIC Annual Statement Instructions require disclosure of assets pledged assets since these assets are not for

the benefit of all policyholders, claimants, and creditors of the Company. The Company should ensure that pledged assets are properly listed on Schedule E – Part 2 in the future.

In addition, the value of the Company's investment in Federal Home Loan Bank in the form of common stock, which is a required qualification for borrowing, was also pledged. Per NAIC Annual Statement Instructions, the Company should have reported the value of this stock on Schedule E – Part 2 of the Annual Statement. The Company should ensure that this arrangement is properly reported in the future.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

Sunset Life is licensed by the Missouri Department of Insurance under Chapter 376 RSMo (Life, Health and Accident Insurance). As of December 31, 2002, the Company was licensed to transact the business of insurance in 43 states and the District of Colombia. As of December 31, 2002, the Company had pending license applications in Tennessee, and Wisconsin.

The Company's product line includes whole life, term life, universal life, and annuities. Individual life products accounted for 99% of total direct written premiums in 2002 with individual annuities accounting for most of the remaining premiums.

The Company utilizes approximately 220 agents located throughout the United States to sell its policies. The parent, Kansas City Life, has an internal audit staff that performs agency audits. An audit is performed within 18 months of an agency starting to generate business for the Company. If no problems were noted from the initial audit of the agency, then a routine audit is performed about once every five years.

Policy Forms & Underwriting Advertising & Sales Materials Treatment of Policyholders

The Missouri Department of Insurance has a market conduct staff that performs a review of these issues and generates a separate market conduct report. The market conduct staff is currently performing a limited scope of the Company's rate books and underwriting manuals for the period spanning the Company's start of business through December 31, 1980. As of the end of this examination fieldwork, the report of the limited scope market conduct examination is not ready for our review and analysis.

The California Department of Insurance performed a market conduct examination of the Company's claims practices and procedures in California for the period February 1, 2001 through March 31, 2002 (report dated November 19, 2002). Minor errors were noted in the report and addressed by Company management. These do not affect the Company's financial position.

REINSURANCE

General

The Company's premium and annuity activity on a direct written, assumed and ceded basis, for the period under examination, is detailed below:

	<u>2002</u>	<u>2001</u>	2000
Direct Business	\$36,720,544	\$40,045,198	\$40,107,522
Reinsurance Assumed			
Affiliates	0	62	116
Reinsurance Ceded:			
Affiliates	(660,788)	(706,060)	(698,469)
Non-affiliates	<u>(17,050,945</u>)	<u>(5,948,629</u>)	(4,525,396)
Net Premiums Written	<u>\$19,008,811</u>	<u>\$33,390,571</u>	<u>\$34,883,773</u>

Assumed

The Company does not assume any significant business.

Ceded

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that an assuming reinsurer fails to perform its obligations under the reinsurance agreement.

A summary of the significant reinsurers for ceded life business is as follows:

		Percent of
Reinsurer	Ceded Life	Total Ceded
	Reserves (000's)	Life Reserves
Transamerica Occidental Life	\$3,217	12%
Annuity & Life Reassurance	2,368	9%
RGA Reinsurance Company	2,368	9%
Protective Life Insurance Company	2,215	9%
Hannover Life Reassurance	1,578	6%

Sunset Life's major reinsurance treaties with the above listed reinsurers are described below.

The Company has an agreement with Transamerica Occidental Life Insurance Company (Transamerica), effective January 1, 1994, to cede a yearly, term life product and a ten year, level premium term product. Sunset Life's retention is 20% for each risk, up to a maximum retention of \$350,000 per policy. The maximum issue amount subject to reinsurance is \$4,550,000 per policy. The agreement was amended effective January 1, 1998 to add a twenty-year, level premium term product. Transamerica reinsures 40% of the risks for the twenty-year term policies, subject to the same retention and reinsurance limits.

The Company has a yearly renewable term reinsurance agreement, effective January 1, 2001, with Annuity & Life Reassurance, LTD (Annuity &Life). Per the terms of the agreement, Annuity & Life will automatically reinsure a 24% first dollar quota share of all mortality risk. Sunset Life's retention is 20% for each risk, up to a maximum retention of \$350,000 per policy. The agreement was terminated effective May 1, 2003.

The Company has a yearly renewable term reinsurance agreement, effective January 1, 2002, with RGA Reinsurance Company. RGA will automatically reinsure a 30% first dollar quota share of all mortality risk. Sunset Life's retention is 20% for each risk, up to a maximum retention of \$350,000 per policy. The agreement was amended effective May 1, 2003 to increase the quota share percentage to 60%.

The Company has an automatic coinsurance agreement, effective September 1, 1995 with Protective Life Insurance Company. Protective will assume 100% of the liabilities for ceded risks. There is no stated limit of reinsurance. There is a separate Administrative Services Agreement that states Protective will establish policy forms and premium rates, perform underwriting, pay claims and provide policyholder services. Sunset is responsible for the sales and marketing of the product.

The Company has a yearly renewable term reinsurance agreement, effective January 1, 2002, with Hannover Life Reassurance Company. Hannover will automatically reinsure a 16% first dollar quota share of all mortality risk. Sunset Life's retention is 20% for each risk, up to a maximum retention of \$350,000 per policy.

ACCOUNTS AND RECORDS

General

The Company's financial statements were audited by the CPA firm, KPMG, LLP, of Kansas City, Missouri, for all years in the examination period.

Policy and claim reserves were reviewed and certified by Stephen A. Bader, FSA, MAAA, for all years in the examination period. Mr. Bader is an employee of Kansas City Life.

The Company's accounting system with respect to its general ledger and the trial balances is unusually complex resulting in numerous non-ledger entries that do not reconcile to the related lines of the Annual Statement. As a result of these numerous non-ledger accounts, it is necessary that the Company prepare and maintain a reconciliation of statutory capital and surplus with the ledger capital and surplus accounts, including the non-ledger items. It is also necessary that the Company's non-ledger entries indicate which line of the Annual Statement (pages 2 through 4) the entry relates, to provide for ease of tracing amounts from the general ledger and the related non-ledger accounts to the affected Annual Statement lines. As an alternative, the Company may choose to eliminate the non-ledger system and replace it with a system that assigns general ledger account numbers to accounts, as is customary in the insurance industry.

The Company's custodial agreement with United Missouri Bank that was in effect during the examination period was deficient relative to the requirements of the NAIC, as stipulated in the Financial Examiners Handbook. Kansas City Life provided a revised and an updated version of the agreement; however, the agreement was also deficient, as it did <u>not</u> contain an acknowledgment by the custodian to assume liability for consequential damage that may arise out of loss or theft of the securities under custody. This language is contained in section 6(a) of

the custodial agreement. The Company is directed to amend the agreement to include the specific language. Also, the Company could not provide a custodial agreement regarding securities on custody with Fidelity Investments Company. The Company is directed to obtain custodial agreements Fidelity Investments Company and ensure that the agreement wordings reflect in its entirety the requirements of the NAIC with respect to custodial agreements.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of Sunset Life for the period ending December 31, 2002. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the "Notes to the Financial Statements." The failure of any column of numbers to add to its respective total is due to rounding or truncation.

There may have been additional differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial concerning their effect on the financial statements, and therefore were only communicated to the Company and noted in the workpapers for each individual Annual Statement item.

Assets

		Assets	Net
	Ledger	Not	Admitted
	Assets	Admitted	Assets
Bonds	\$351,449,177	\$3,618,114	\$347,831,063
Preferred Stocks	4,116,199		4,116,199
Common Stocks	1,472,600		1,472,600
Mortgage Loans on Real Estate	63,030,625		63,030,625
Real Estate:			
Properties Held for the Production of Income	2,188,875		2,188,875
Policy Loans	14,607,838		14,607,838
Cash and Short-term Investments (Note 1)	51,607,654	(917,344)	52,524,998
Other Invested Assets	7,606,659	2,319,085	5,287,574
Amounts Recoverable from Reinsurers	886,210	196,788	689,422
Commissions and Expense Allowances Due	64,539		64,539
Electronic Data Processing Equipment	505		505
Federal Income Tax Recoverable	15,180,382	13,214,691	1,965,691
Life Insurance Premiums and Annuity			
Consideration Deferred and Uncollected	3,559,879	1,542	3,558,337
Accident and Health Premiums Due and Unpaid	53		53
Investment Income Due and Accrued	6,510,520	160,191	6,350,329
Amounts Due from Agents	340,978	340,978	0
Other Assets Non-Admitted	417,485	417,485	0
Aggregate Write-Ins:			
Guaranty Assessments	1,681		1,681
Prepaid Expenses	500	500	0
TOTAL ASSETS	<u>\$523,042,359</u>	<u>\$19,352,030</u>	<u>\$503,690,329</u>

Liabilities, Surplus and Other Funds

Aggregate Reserve for Life Policies and Contracts	\$240,294,441
Aggregate Reserve for Accident and Health Policies	159,350
Liability for Deposit-type Contracts	162,873,428
Policy and Contract Claims – Life	625,046
Policy and Contract Claims – Accident and Health	18,287
Policyholders' Dividend and Coupon Payable	333
Policyholders' Dividends Apportioned for Payment	105,000
Premiums and Annuity Considerations Received in Advance	69,946
Interest Maintenance Reserve	4,496,501
Commissions to Agents Due or Accrued	103,000
General Expenses Due or Accrued	1,282,293
Taxes, Licenses and Fees Due or Accrued	442,183
Unearned Investment Income	184,787
Amounts Withheld or Retained	4,006,123
Amounts Held for Agents' Account	304,111
Remittances and Items Not Allocated (Note 3)	1,293,745
Liability for Benefits for Employees and Agents	2,557,137
Asset Valuation Reserve	2,700,000
Payable to Parent, Subsidiaries and Affiliates (Note 2)	993,203
Aggregate Write-Ins for Liabilities:	
Miscellaneous Liabilities and Retirement Savings Fund	<u>114,032</u>
TOTAL LIABILITIES	\$422,622,946
Common Capital Stock	5,320,000
Gross Paid In and Contributed Surplus	12,717,600
Unassigned Funds (Surplus)	63,029,780
Capital and Surplus	<u>\$81,067,380</u>
TOTAL LIABILITIES AND SURPLUS	<u>\$503,690,326</u>

Summary of Operations

Premiums and Annuity Considerations	\$19,008,810
Considerations for Supplementary Contracts with Life Contingencies	1,550,852
Net Investment Income	32,147,439
Amortization of Interest Maintenance Reserve	80,221
Commission and Expense Allowances on Reinsurance Ceded	720,690
Miscellaneous Income	88,520
TOTAL	\$53,596,532
Death Benefits	3,739,392
Matured Endowments	59,745
Annuity Benefits	747,612
Disability Benefits and Benefits Under Accident & Health Policies	176,511
Coupons, Guaranteed Endowments and Similar Benefits	6,608
Surrender Benefits and Withdrawals for Life Contracts	13,207,473
Interest and Adjustments on Contract and Deposit-type Contract Funds	8,596,410
Payments on Supplementary Contracts with Life Contingencies	593,025
Increase in Aggregate Reserves for Life and Accident & Health Policies	(1,905,750)
Commissions on Premiums and Annuity Considerations	4,765,195
General Insurance Expenses	6,157,372
Insurance Taxes, Licenses and Fees	574,975
Increase in Loading on Deferred and Uncollected Premiums	61,861
Aggregate Write-Ins for Deductions:	
Interest on Deferred Compensation	180,509
TOTAL	<u>\$36,960,938</u>
NET GAIN FROM OPERATIONS	\$16,635,594
Dividends to Policyholders	90,352
Federal Income Taxes Incurred	(3,888,341)
Net Realized Capital Gains and Losses	(1,438,191)
NET INCOME	<u>\$18,995,392</u>

Capital and Surplus Account

Net Change in Capital and Surplus	<u>\$8,926,491</u>
Change in Net Deferred Income Tax	(6,156,591)
Change in Asset Valuation Reserve	700,000
Change in Reserve on Account of Change in Valuation Basis	(76,833)
Change in Non-Admitted Assets	(789,194)
Change in Net Unrealized Capital Gains or (Losses)	(3,746,283)
Net Income	18,995,392
Capital and Surplus, December 31, 2001	\$72,140,886

CAPITAL AND SURPLUS, DECEMBER 31, 2002 <u>\$81,067,377</u>

NOTES TO THE FINANCIAL STATEMENTS

Note 1 – Cash and Short-term Investment

\$52,524,998

The amount reported by the Company for this account was increased by \$991,704 and the amount reported by the Company for Payable to Parent, Subsidiaries and Affiliates was increased by the same amount. This reclassification was made to properly reflect the Company's transaction with Kansas City Life with respect to the personal growth account business. Kansas City Life has an account with State Street Bank for payment of claims for itself and its insurance subsidiaries, including Sunset Life for the personal growth account business. The account, according to Kansas City Life, is utilized to pay claims for each of the subsidiaries and the subsidiaries are required to reimburse Kansas City Life. In effect, this is a joint intercompany claims account, for which Kansas City Life is the paymaster. As of December 31, 2002, Sunset Life improperly included \$991,704 owed to Kansas City Life as part of its cash account as a negative balance with State Street bank. However, this examination was unable to confirm this

amount with State Street Bank, as the amount does not reside with the bank. This balance actually represents an intercompany transaction payable, which should have been reported differently as part of related party transactions. The Company is directed to report as its cash only those amounts that actually reside with the bank and can be verified through direct confirmation by the examination process.

Note 2 - Payable to Parent, Subsidiaries and Affiliates

\$993,203

The amount reported by the Company for this account was increased by \$991,704 to reflect intercompany transactions improperly reported by the Company as part of the Cash account, see Note #1 above. The Company is directed to properly and accurately report the underlying transaction in the future. In addition, the underlying transaction between Kansas City Life and the Company constitutes an intercompany transaction in accordance with the Missouri holding company law. Consequently, the Company is directed to enter into an intercompany agreement with Kansas City Life, describing each entity's role with respect to the payment of claims in the personal growth account. The Company should submit the agreement to the MDI in accordance with Section 382.195 RSMo (Transactions within a holding company system).

Note 3 – Remittances and Items Not Allocated

\$1,293,745

As noted in the prior examination, the Company continues to have reporting problems regarding transactions in this account. The problems can be summarized as follows: 1) most of the general ledger accounts included in the Annual Statement balance included both debits and credits, which were netted and included as a single amount for Annual Statement purposes. Per SSAP #64 (Offsetting and Netting of Assets and Liabilities) only debits and credits for the same party may be offset - the Company cannot offset a liability to one policyholder with an asset due from a different policyholder. Any debit balances should be shown on the Asset page of the

Sunset Life – 12/31/02 Exam

Annual Statement (on the appropriate line) and a determination of admissibility made based on

SSAP #4 (Assets and Nonadmitted Assets) and 2), several of the general ledger accounts with

credit balances did not meet the criteria for reporting on this line of the Annual Statement. Per

the NAIC Annual Statement instructions, this line should include "cash receipts that cannot be

identified for a specific purpose or, for other reasons, cannot be applied to a specific account

when received". The Company included claims payment liabilities, reinsurance liabilities,

garnishments, etc., which clearly do not meet the above definition. The Company should ensure

that, per SSAP #64, unrelated debits and credits within the same general ledger account or

between two or more general ledger accounts are not netted, but included as distinct

assets/liabilities on the Annual Statement. In addition, the Company should ensure it follows the

NAIC SSAP's and Annual Statement Instructions guidance in completing the Annual Statement.

EXAMINATION CHANGES

--None--

GENERAL COMMENTS AND /OR RECOMMENDATIONS

Corporate Records (page 6)

In accordance with the Bylaws, each member of the Executive Committee must be a member of the Board of Sunset Life. However, the examination noted that Kansas City Life's Executive Committee functions on behalf of the Company's Executive Committee. The examination further noted several members of Kansas City Life's Executive Committee are not on Sunset Life's Board, in violation of the Bylaws. The Company should either amend its Bylaws, stating that Kansas City Life's Executive Committee will act on its behalf or comply with the provisions of the Bylaws with respect to the composition of the Executive Committee and its actions.

With respect to the powers of the Board of Directors of the Company, the Bylaws identified the state of Washington as the controlling legal authority, however, with respect to Committees, specifically, the Executive Committee, the state of Missouri was indicated as the controlling legal authority. The Company should amend its Bylaws to identify the state of Missouri as its controlling legal authority.

Other Deposits (page 13)

The Company should ensure that its assets pledged as collateral to the Federal Home Loan Bank, including the pledged value of the common stock of Federal Home Loan Bank owned by the Company are properly disclosed on Schedule E – Part 2 (Special Deposits) of the Annual Statement in the future.

Accounts and Records (page 18)

The Company should reduce and possibly eliminate the unusual complexity in its accounting system by abandoning the non-ledger approach and replacing the current system with one that assigns general ledger numbers to accounts that can easily be traced to the Annual Statement lines. Alternatively, the Company should prepare and maintain reconciliation workpapers for Annual Statement lines on pages 2 through 4 of the Annual Statement.

Custodial Agreements (page 18)

The Company's custodial agreement with United Missouri Bank is deficient, as it did <u>not</u> contain an acknowledgment by the custodian to assume liability for consequential damage that may arise out of loss or theft of the securities under custody.

The Company could not provide a custodial agreement regarding securities on custody with Fidelity Investments, contrary to applicable standards. The Company is directed to obtain a custodial agreement from Fidelity Investments and ensure that the agreement wordings reflect in its entirety the requirements of the NAIC with respect to custodial agreements.

Cash and Short-term Investments (page 23)

The Company improperly reported payables to Kansas City Life originating from related party transactions as part of the cash account. The Company is directed to report as cash only those amounts that actually reside with the bank and can be verified through direct confirmation by the examination process.

Payable to Parent, Subsidiaries and Affiliates (page 24)

Kansas City Life has an account with State Street Bank for payment of claims for itself and its insurance subsidiaries, including Sunset Life for the personal growth account business. At year-end 2002, Sunset Life owed Kansas City Life for unreimbursed claims paid on its behalf

by Kansas City Life. However, Sunset Life improperly reported the unreimbursed amount as part of cash, which understated the amount payable to its parent. The Company is directed to properly and accurately report the underlying transaction in the future.

The underlying transaction between Kansas City Life and Sunset Life as noted above constitutes an intercompany transaction in accordance with the Missouri holding company law. The Company should submit an agreement to the MDI in accordance with Section 382.195 RSMo (Transactions within a holding company system) for review and possible approval.

Remittances and Items Not Allocated (page 24)

The Company's accounting and reporting for this line of the Annual Statement is inconsistent with prescribed standards and procedures. The Company should ensure that, per SSAP #64, unrelated debits and credits within the same general ledger account or between two or more general ledger accounts are not netted, but included as distinct assets/liabilities on the Annual Statement. Overall, the Company should ensure it follows NAIC SSAP's and NAIC's Annual Statement Instructions guidance in completing the Annual Statement.

ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of Sunset Life Insurance Company of America during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Bernie Troop, CFE, Shawn Hernandez, CFE, Karen Baldree, AFE and Barbara Bartlett, AFE, CPA, examiners for the Missouri Department of Insurance, also participated in this examination. Andrew Balas, CFE, AES, Computer Audit Specialist for the Missouri Department of Insurance performed a review of the information system environment. Timothy Harris, FSA, MAAA of Milliman USA, Inc., also participated as a consulting actuary.

VERIFICATION		
State of Missouri)		
County of)		
I, Levi N. Nwasoria, CPA, CFE on my oa belief the above examination report is true and accupon the books, records or other documents of examined or as ascertained from the testimony of concerning its affairs and such conclusions a reasonably warranted from the facts.	of the Company, its agents or other persons its officers or agents or other persons examined	
	Levi N. Nwasoria, CPA, CFE Examiner-In-Charge Missouri Department of Insurance	
Sworn to and subscribed before me thisd	ay of, 2004.	
My commission expires:	Notary Public	
SUPERV	ISION	
The examination process has been monitorexamination report and supporting workpapers has with NAIC procedures and guidelines as continuable than the description of the support of the supporting workpapers has been confirmed.		

Frederick G. Heese, CFE, CPA

Missouri Department of Insurance

Audit Manager